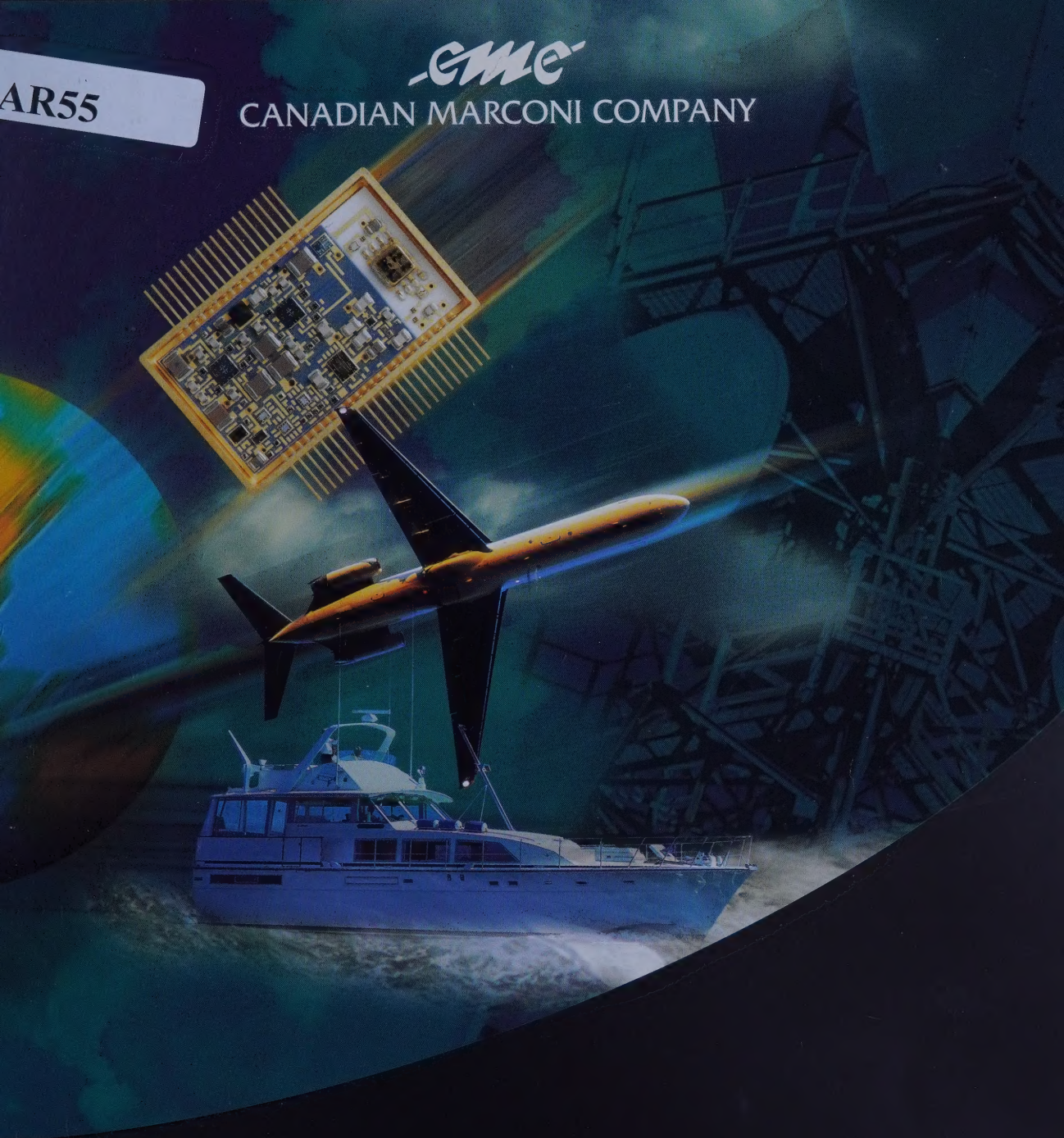


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CANADIAN MARCONI COMPANY



Annual Report 1996-1997

Annual Report
Canadian Marconi
Company

Canadian Marconi Company

Canadian Marconi Company (also referred to herein as "CMC" or the "Corporation") is a recognized world leader in the design, manufacture, sale and support of high-technology electronic products for the aerospace and communications markets.

CMC is a publicly held Canadian corporation, with The General Electric Company, p.l.c., (GEC) of the United Kingdom holding 51 per cent of outstanding shares. CMC shares are traded on the Montreal, Toronto and American stock exchanges.

The Corporation's corporate headquarters and principal design and manufacturing facility is located in Ville Saint-Laurent, Quebec. CMC's facilities include a branch plant in Kanata, Ontario, as well as sales and service offices across Canada. A network of CMC sales and service agents and representatives complements its support activities worldwide. CMC's capabilities in product development, sales and systems support are broadened by its U.S. subsidiaries Cincinnati Electronics Corporation of Mason, Ohio; Northstar Technologies, a division of CMC Electronics, Inc., of Acton, Massachusetts; and CMC DataComm, Inc. of Reston, Virginia.

The Annual General Meeting of
Shareholders will be held at the:

Hôtel le Reine Elizabeth
900 René-Lévesque Boulevard W.
Montreal, Quebec
on Thursday, August 21, 1997
at 11 o'clock.

To obtain a copy of the Annual
Information Form, please send
your request to the Secretary of
the Corporation.

Pour obtenir une copie française
de ce rapport annuel, prière d'adresser
votre demande au bureau du Secrétaire
de la Société.

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Financial Highlights

Year ended March 31

(in thousands of dollars except as otherwise stated)	1997	1996	1995	1994	1993	1992
Revenues	\$ 257,768	\$ 251,489	\$ 250,353	\$ 289,835	\$ 294,069	\$ 325,803
Net income	4,974	9,100	4,695	29,519	23,971	27,955
Dividends	3,355	-	5,053	6,669	6,657	4,992
Shareholders' equity	354,977	350,349	343,135	342,406	311,507	290,715
Working capital	297,023	281,402	260,039	272,852	258,148	231,729
Number of employees	1,553	1,546	1,702	1,968	2,258	2,699
Number of shares (in thousands)	24,074	23,938	23,938	23,912	23,779	23,773
Per share data (in dollars)						
Net income	0.21	0.38	0.20	1.23	1.01	1.18
Dividends	0.14	-	0.21	0.28	0.28	0.21
Shareholders' equity	14.75	14.64	14.33	14.32	13.10	12.23
Market price range (in dollars)						
High	18.50	15.63	17.50	17.25	16.88	18.00
Low	12.25	11.88	12.70	13.00	12.75	11.70
Close	18.25	13.63	13.13	16.13	14.25	15.88

Aerospace

(in millions of dollars)



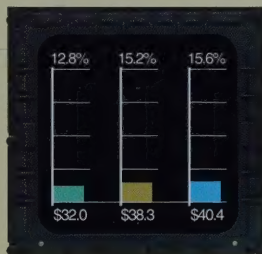
Communications

(in millions of dollars)



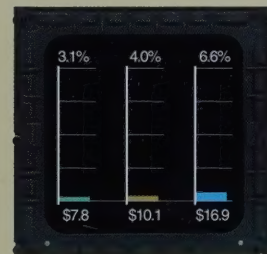
Electronic Components

(in millions of dollars)



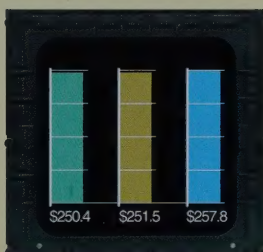
Surface Transportation

(in millions of dollars)



Total Revenues

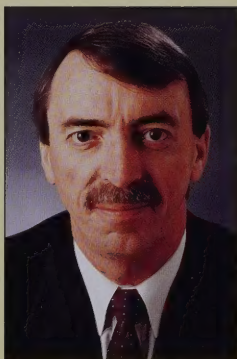
(in millions of dollars)



■ 1994/1995
■ 1995/1996
■ 1996/1997



William I. M. Turner, Jr., C.M.
Chairman



Carmen L. Lloyd
President and Chief Executive Officer

Fiscal 1997 Performance

Fiscal 1997 has been a year of mixed results for Canadian Marconi Company (CMC).

Revenues, at \$257.8 million, increased by \$6.3 million from last year, while order backlog, at \$205 million, increased by 14% from March 31, 1996. Equally as important, operating income has shown improvement as higher volumes, an improved sales mix and on-going cost reduction efforts increased product margins. These improvements were, however, offset by charges taken against our facsimile switching business. As a consequence, net income ended the year at \$5.0 million or \$0.21 per share, compared to \$9.1 million or \$0.38 per share last year.

During the year, the Corporation reduced its marketing efforts for facsimile switching products to focus on resolving technical and contractual issues caused by problems inherent in earlier product software releases. As a result, facsimile switching product revenues were reduced compared to the previous year, and it was necessary to write down goodwill and record certain contractual and restructuring provisions.

Report to Shareholders

We believe the product is now more effective, and we are reviewing various alternatives, including strategic partnerships, to better our market position.

The Corporation's performance was influenced by a number of other factors during the year, most notably, the growth in the U.S. economy and international air-line markets, which contributed to increased revenues across our remaining market segments. The opportunities to leverage our market position in these segments are encouraging, with new product introductions such as the Aero-I antenna, the CMA-900 flight management system and Northstar's M3 Navigator. CMC also relies on the military market, with 58% of fiscal 1997 revenues generated from military product applications. The Corporation's large installed product base in these markets provides an opportunity for future growth, as military budgets continue to favour upgrades over new purchases. The UH-60Q helicopter and the AN/AAR-44 missile warning improvement programs are good examples. We were particularly pleased with the improvement in fiscal 1997 performance from our U.S. subsidiaries, Cincinnati Electronics Corpo-

ration (CE) and Northstar Technologies. CE has made progress in transforming itself from primarily a military communications and component supplier, to a supplier of space electronics and infrared products. Northstar Technologies continued to hold a dominant position in the marine market, and is expanding in the Global Positioning System (GPS) avionics and agriculture markets.

CMC has maintained its strong commitment to Research and Development (R&D) and set aside 9.8% of revenues in fiscal 1997. Intensive investment continues in state-of-the-art products, with a larger proportion of research and development funds being devoted to commercial aerospace and communications markets.

During the fiscal year, CE reached a settlement with the U.S. Government in respect of its 1989 contract termination for the design and production of an airborne radio. Net proceeds of the settlement were \$2.0 million, and are included in fiscal 1997 operating income.

We are also pleased to report that CMC was granted registration to the ISO 9001 Quality Management Standard for its facilities in Ville Saint-Laurent, Quebec, and Kanata, Ontario. As well, CE was granted registration to ISO 9000.

Construction of a residential development began in fiscal 1997 on the site of the Corporation's former Trenton Avenue facility. The Corporation is selling the land in parcels to the developer, who expects the development project to be completed within five years.

Corporate Governance

The Corporation seeks to attain high standards of corporate governance. The Board of Directors considered the corporate governance guidelines adopted by both the Toronto and the Montreal stock exchanges and believes that it is in alignment therewith.

The Nominating and Corporate Governance Committee was established with the mandate to oversee and monitor compliance with the guidelines. Please refer to the Corporation's Management Proxy Circular for a description of the Corporation's corporate governance practices.

Future Direction

Over the past year, the CMC management team has created an integrated strategy for growth. We are moving CMC from being a portfolio of largely independent businesses, to operating as a single entity with a clear strategic focus. CMC intends to exploit the increasing integration of digital communications and navigation technology. In this pursuit, we can exploit both our current technological strengths and

established positions in the aerospace and marine markets. In addition to providing increasingly sophisticated integrated communications/navigation systems, we will be expanding the range of specialty components which we produce in support of these markets.

The transformation we are effecting represents fundamental changes in our basic processes. Our customers in both the military and commercial markets require quicker product cycles and world-class customer support. We will continue to invest in R&D to maintain product superiority, but we intend to improve the yield on our R&D investments, more efficiently leveraging common technology into both military and commercial products.

Consistent with this strategic focus, a decision was taken to license a CMC product developed for the surface transportation industry. An exclusive license was signed with Cadec Systems Inc. (Cadec) of Londonderry, New Hampshire, to develop and market the FreightLink fleet management system. Cadec is a wholly-owned subsidiary of Cummins Engine Company of Columbus, Indiana, a prime supplier of diesel engines to the trucking industry.

Directors and Management

A number of key new members have been appointed to the executive management team. These changes in the organization are an essential step in supporting our overall strategic direction.

Guy J. Paquette joined the Corporation as Vice President, General Counsel and Corporate Secretary in August 1996. Mr. Paquette was previously employed by Quebecor Printing Inc., in the capacity of Director of Legal Affairs and Assistant Secretary, and has gained wide experience in commercial and corporate law.

Michel Guilbault was appointed Vice President, Human Resources, in November 1996. Mr. Guilbault has wide experience in all aspects of human resources management, coaching and organizational development, and has gained extensive experience during his career while working for several large corporations.

Gregg R. Fawkes joined the Corporation in February 1997 as Vice President, Business Development and Strategic Planning. Mr. Fawkes has a background in aerospace and high-technology business development, with a specialty in risk analysis and management. Most recently, he worked for GE Aircraft Engines, developing new business opportunities, conducting new product risk analyses, leading the GE team in an international R&D collaboration and directing sales of commercial engines in China. His prior experience includes working for the U.S. Secretary of Commerce.

In August 1996, H. Anthony Arrell was appointed a director of the Corporation. Mr. Arrell is Chairman and Chief Executive Officer of Burgundy Asset Management Ltd. of Toronto, Ontario. On the same date, Howard L. Beck, Q.C., Chairman of Philip Services Inc. of Toronto, Ontario, as well as Pierre Dufour, Vice-President, International Engineering and Construction, L'Air Liquide S.A. of Paris, France, were appointed directors of the Corporation.

The Board of Directors acknowledges the contributions of Malcolm Bates, who retired in February 1997, having served as a director since 1991. He served on the Compensation and the Audit Committees at

one time. His insight of comments and perceptive personality will long be remembered. He ably represented our majority shareholder on the Board.

The employees throughout Canadian Marconi Company and its subsidiaries are to be thanked for their hard work during a challenging year. Our employees have demonstrated their dedication and commitment to supporting our Corporation and improving our levels of customer satisfaction and quality.

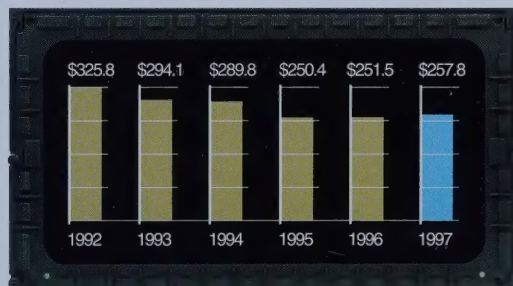
William I. M. Turner, Jr., C.M.
Chairman

Carmen L. Lloyd
President and Chief Executive Officer

May 29, 1997

Revenues

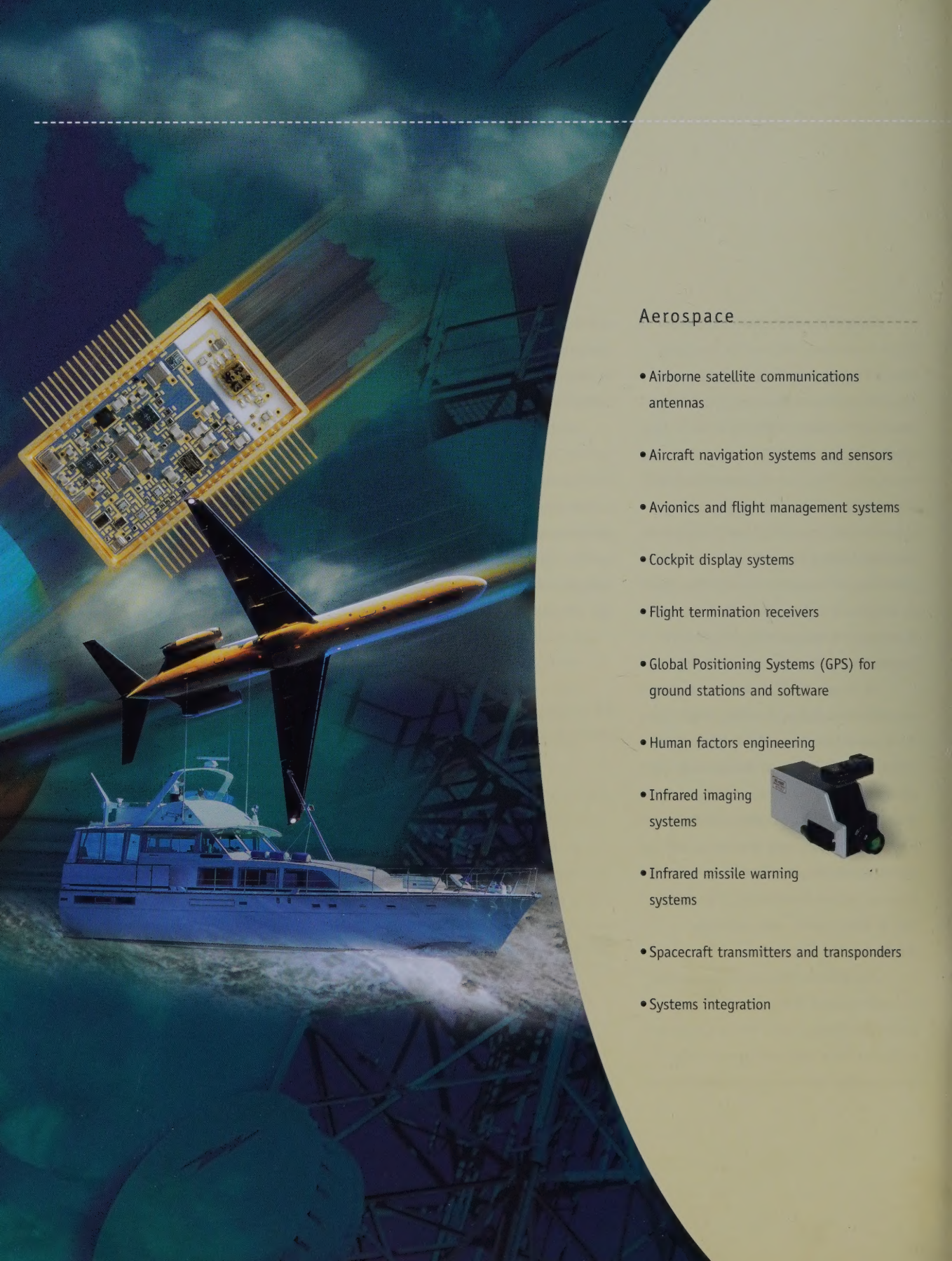
(in millions of dollars)



Net Income

(in millions of dollars)





Aerospace

- Airborne satellite communications antennas
- Aircraft navigation systems and sensors
- Avionics and flight management systems
- Cockpit display systems
- Flight termination receivers
- Global Positioning Systems (GPS) for ground stations and software
- Human factors engineering
- Infrared imaging systems
- Infrared missile warning systems
- Spacecraft transmitters and transponders
- Systems integration



Canadian Marconi at a Glance

Communications

- Antenna signal processors for the commercial wireless industry
- Canadian resale, distribution and servicing of: electronic test equipment; marine and land communications systems; and industrial security systems
- Facsimile switching systems
- Multi-channel line-of-sight and electronic counter-countermeasures radios and ancillaries
- Secure satellite communications radios
- Tactical communications sub-systems
- Tactical information distribution systems
- Tactical multiplexer switches and digital circuit switches



Electronic Components

- Circuit packaging
- Contract manufacturing
- Display components and panels
- GPS receivers for original equipment manufacturers
- Hybrid microcircuits
- Infrared detectors
- Power conversion and magnetics products



Surface Transportation

- Marine GPS navigation and geographic information systems



Management's Discussion and Analysis

Canadian Marconi Company

Fiscal 1997 was a year of mixed results for the Corporation. Revenue growth, improvements in operating income and an increase in order backlog across most business segments were partially offset by reductions in the Corporation's facsimile switching business, leading to the writedown of goodwill and other unusual charges (see Note 10 to the Consolidated Financial Statements). Fiscal 1997 operating income, before unusual charges, ended the year at \$18.3 million compared to \$6.6 million in fiscal 1996. After accounting for the unusual charges,

fiscal 1997 net income ended the year at \$5.0 million or \$0.21 per share, compared with \$9.1 million, or \$0.38 per share last year. Revenues for fiscal 1997 increased to \$257.8 million compared with \$251.5 million in the previous year.

The following discussion and analysis explains trends in the Corporation's operating results and financial condition for the year ended March 31, 1997. Comparative figures used in this analysis have been reclassified to conform with this year's

presentation. The purpose of this analysis is to help shareholders and other readers understand the factors underlying the financial performance of the Corporation, including, where possible, those which may impact future results. The Consolidated Financial Statements and Notes to the Consolidated Financial Statements should be read as an integral part of this review.

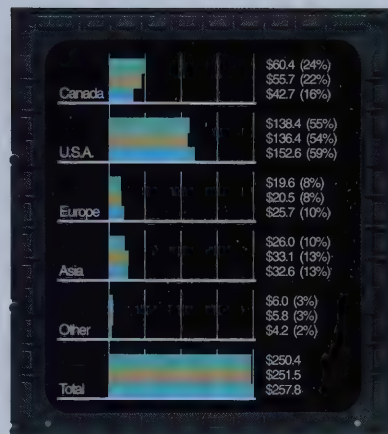
Consolidated Revenues

Canadian Marconi Company designs, manufactures and sells electronic products for both military and commercial applications across a number of market segments. The Corporation's revenues are generated substantially from international markets, with export revenues increasing to 83% of total revenues in fiscal 1997 compared to 78% last year. The growth in the U.S. economy, combined with the thriving international airline market, were the primary contributing factors to the revenue growth in fiscal 1997, compensating for a \$17 million decline in facsimile switching revenues. Commercial revenues decreased from \$115 million or 46% of consolidated revenues in fiscal 1996 to \$107.7 million or 42% in fiscal 1997, due primarily to the reduction in facsimile switching revenues.

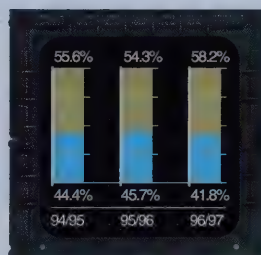
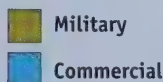
The Canadian dollar has averaged nearly 73 cents U.S. in both fiscal 1996 and fiscal 1997. This level of Canadian dollar relative to the U.S. dollar benefits the Corporation, enhancing its ability to offer more competitive prices to its U.S. and other international customers, across all market segments.

Geographic Sales Distribution

(in millions of dollars)



Sales Distribution

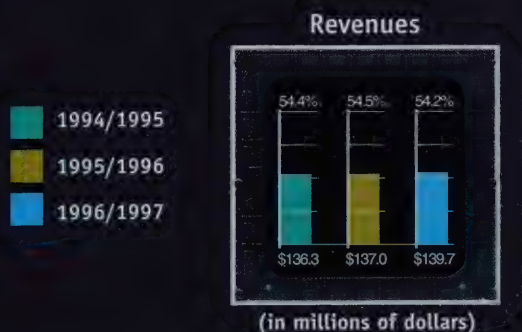




Aerospace
Canadian Marconi
Company

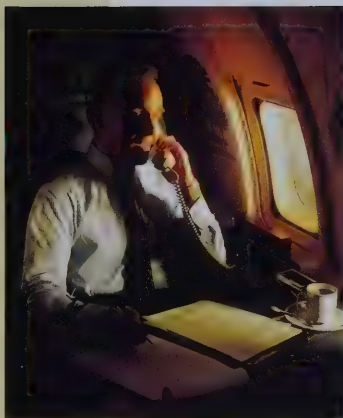
Aerospace revenues increased to \$139.7 million in fiscal 1997 from \$137.0 million in fiscal 1996. Growth in commercial avionics and space electronics offset the revenue decline due to the completion of production deliveries of variable omni range (VOR) systems to Transport Canada in fiscal 1996, and reduced spending levels under CE's cost reimbursable AN/AAR-44 infrared missile warning system engineering upgrade program, which was substantially completed in fiscal 1997. The Corporation has not received additional orders for the VOR equipment and does not expect future orders due to the replacement of this technology with GPS-based solutions. CE's new infrared missile warning system (called the AN/AAR-44A) is expected to enter into production in fiscal 1998, leading to the future upgrade of fielded equipment. Excluding the impact of these two programs on year over year revenues, the increase in fiscal 1997 aerospace revenues would have been 17% compared to fiscal 1996.

The commercial aerospace market is characterized by the growing application of GPS technology, the need for high quality, high reliability products, compliance to regulatory changes and vigorous competition. Satellite communications (Satcom) antennas, airborne GPS receivers, airborne GPS navigators such as Northstar's M3 and CMC's CMA-900 Flight Management System, and CE's space transmitters and receivers, are the Corporation's primary product groups competing in this market.



Satellite Communications (Satcom) Antennas

- Major shipments of the CMA-2102 high-gain Satcom antenna were made to American Airlines, Cathay Pacific, Saudi Arabian, Singapore Airlines and Swissair.
- Development of the new CMA-2200 intermediate-gain Satcom antenna, suitable for the Inmarsat III Aero-I service, progressed well. This new product will join the CMA-2102 in production during the next fiscal year.



Development of the next-generation intermediate-gain Satcom antenna, the CMA-2200, is nearing completion and the product is scheduled to enter production in fiscal 1998. The CMA-2200 provides medium- and smaller-sized aircraft operators access to Satcom services over wide areas, using a smaller, economical antenna. The Corporation believes it can penetrate this market by leveraging its existing technical and market position.

Airborne GPS receivers are sold principally through Honeywell to the jet air transport market, where the addition of several new airline and business jet customers contributed to an increase in revenues over fiscal 1996.

The Corporation has a large installed customer base of Omega and Loran navigation products, both of which are being replaced by GPS-based technology, due to the regulatory decommissioning of Omega transmitter stations in September 1997 and Loran stations by the year 2000. As expected, fiscal 1997 revenues from Omega navigation products declined compared to

last year. The Northstar M3 GPS Navigator (Loran replacement) received Federal Aviation Administration (FAA) certification for use in instrument approaches in August 1996, leading to increased revenues in the latter part of fiscal 1997, while the CMA-900 Flight Management System product (Omega replacement) continued to gain market share with the recent selection by KLM, Swissair and other airlines, and deliveries are expected to increase in fiscal 1998.

Space electronics revenues increased significantly in fiscal 1997, due primarily to the T-700 series of launch vehicle and spacecraft telemetry transmitters continuing to gain market acceptance. In fiscal 1996, primary revenues for this product line were from customer funded engineering development of the T-704 for the Atlas Launch Vehicle. In fiscal 1997, production deliveries for Atlas have commenced and further customer funded engineering programs to adapt this technology to Titan and Delta Launch Vehicles are under way. CE continued to dominate the Flight Termination Receiver (FTR) market. CE's FTRs were flown on 33 space launches and seven missile test flights in fiscal 1997, compared to 30 and two, respectively, in fiscal 1996. Based on customer schedules, a similar number of launches is expected in fiscal 1998.

The Corporation's primary product groups serving the military aerospace market include navigation, control and display systems, missile warning systems and infrared imaging systems. While the characteristics of

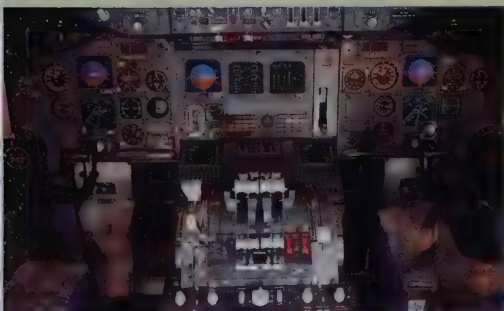
Satcom antennas and airborne GPS receivers maintained their dominant market share in fiscal 1997, in excess of 50% and 70%, respectively. The higher volumes increased efficiencies and margins, allowing the Corporation to remain price competitive. In fiscal 1997, Satcom antenna revenues increased, in part from the successful introduction of the antenna as a factory fitment on Boeing and Airbus aircraft. As a result, orders are expected to remain strong in the near term, in line with the robust commercial airline market, while revenues may fluctuate year over year, depending upon the airlines' installation schedules.

this market are similar to commercial aerospace, budget constraints are reducing new equipment purchases in favour of retrofit programs, extending the service lives of assets, while providing newer technology to the end user. This trend is expected to benefit CMC. Particularly, the selection by Sikorsky of CMC's control and display systems for the U.S. Army UH-60Q helicopter program is expected to expand into retrofit opportunities in the near term, leveraging on the Corporation's position as the supplier of cockpit instruments for the Black Hawk helicopter since the 1970s. The retrofit of the AN/AAR-44 infrared missile warning system provides a similar opportunity for CE.

As mentioned, revenue from CE's AN/AAR-44 infrared missile warning system declined in fiscal 1997, while revenue from the remaining product groups stayed near last year's levels. Military aerospace revenues are expected to decline in fiscal 1998, as UH-60Q and AN/AAR-44A production deliveries are not expected until late in the fiscal year, while certain long-term production contracts currently in backlog are nearing completion.

Aircraft Navigation and Flight Management Systems

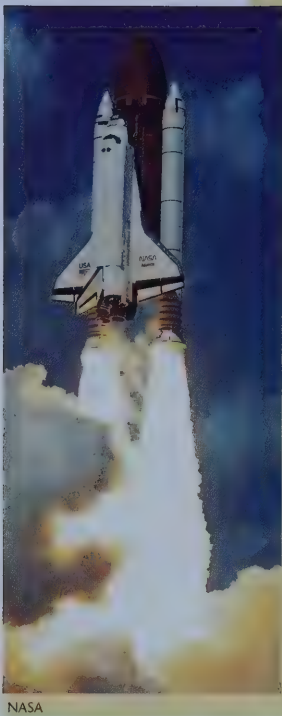
- Led by Swissair, a team of European MD-80 aircraft operators (Austrian Airlines, Spanair and Edelweis) has selected the CMA-900 Flight Management System to replace Omega equipment and meet new European airborne navigation standards.
- The CMA-900 was selected by Meridiana for their MD-80 and DC-9 aircraft; Air Malta for their 737-200 aircraft and Garuda Indonesia Airlines to retrofit their A300 B4 passenger aircraft.
- Northstar Technologies' primary avionics product, the M3 GPS Navigator, was certified in August 1996 by the Federal Aviation Administration for use in instrument approaches.
- Professional Pilot magazine's annual survey of its readers on customer service, has again ranked Northstar first among 18 competitors, indicating a high level of customer satisfaction.
- Daimler-Benz Aerospace (DASA), Navigation and Flight Guidance Systems division, has awarded CMC a contract to develop an integrated circuit and provide Microwave Landing System (MLS) engineering assistance. DASA is developing the MLS portion of a joint Rockwell Collins - DASA Multi-Mode Receiver, which combines MLS, the current Instrument Landing System and emerging GPS technologies in a single unit.
- KLM Royal Dutch Airlines has chosen a triple CMC flight management system installation to form the core of its 747 cockpit modernization program. CMC will integrate its CMA-900 Flight Management System with new electronic instruments and modern laser-based inertial equipment to upgrade the cockpits of KLM's older 'classic' fleet of 747 aircraft and provide a 'glass cockpit' similar to that of new 747 aircraft.



Aircraft Navigation, Control and Display Systems

- Sikorsky Aircraft has selected CMC's CMA-2082A Control Display Unit and CMA-2088 Emergency Control Panel as the Mission Management System for the U.S. Army UH-60Q Black Hawk Medical Evacuation helicopter.
- Eurocopter Deutschland has contracted CMC to supply the newly developed CMA-3000 Single Unit Navigator for the Bavarian police EC-135 helicopter. The CMA-3000 is a self-contained multifunction control and display unit that integrates navigation sensors and communications equipment. This first contract covers options for 60 units.
- GKN Westland Helicopters Limited has given CMC the Supplier of the Year Award for excellent delivery and quality performance in supplying the Colour Display Generator for the EH101 Merlin helicopter. The Merlin employs the CMC developed CMA-2074 Colour Display Generator to enhance the mission system video capabilities. The first fully equipped EH101 Merlin has carried out a number of successful test flights at GKN Westland Helicopters' facility in Yeovil, U.K. These flights utilize the full mission suite aboard the helicopter for a detailed test and evaluation program.
- CMC has delivered the latest operational software for the CF-UTTH helicopter. Production for the main contract will be completed in the summer of 1997, and Bell has already exercised an option for additional systems which will be delivered in December 1997. The CF-UTTH has been deployed for over a year with the Canadian Armed Forces and featured predominantly during several rescue operations.
- Several contracts were awarded to CMC's Human Factors Engineering group, primarily by Canada's Department of National Defence. The group is performing studies in new areas such as modernization programs for NORAD (North American Aerospace Defence).





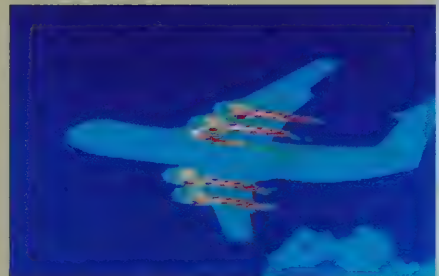
NASA

◀ Space Electronics Products

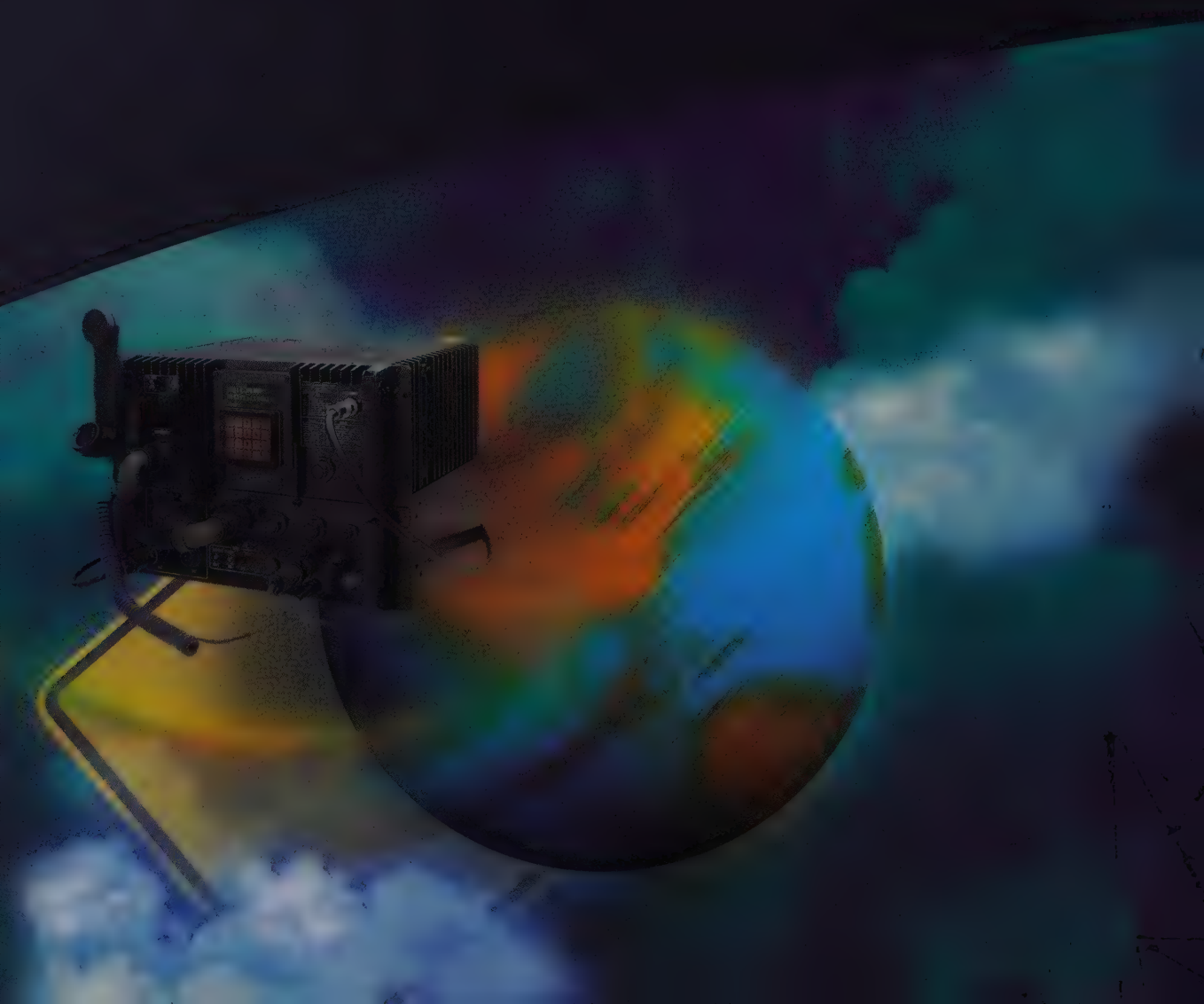
- Major design and development contracts were awarded by NASA to Cincinnati Electronics for a new Tracking and Data Relay Satellite System (TDRSS) user transponder; FM transmitters for the Delta III launch vehicle; a data acquisition unit for the Atlas launch vehicle; and a UHF transceiver to be used on the MARS '98 Lander and Orbiter Mission.
- The model T-705 TDRSS compatible transmitter had its maiden flight aboard an Atlas launch vehicle. The transmitter successfully demonstrated the capability to down-link launch vehicle performance data, in near real time, during the launch through the NASA TDRSS.
- CE's Flight Termination Receivers were flown on 33 space launches as well as seven missile test flights in 1996.

Infrared Systems and Components

- Record orders were received for CE's newest infrared camera, the NightMaster. The versatility of this camera's design has allowed the system to be repackaged into all-weather gimbal mounts for airborne and shipborne applications.
- CE has reinforced last year's introduction of the HIPPS (High Performance Portable Sensor System) with the launch of a new version called SeeSpot that allows the system to simultaneously view a laser designator 'spot' and the infrared scene.
- Raytheon E-Systems Goleta and CE are jointly developing the AN/AAR-44(V) missile warning system, based on the proven technology of the AN/AAR-44 and a new advanced development system built and tested by CE.
- CE is modernizing its currently fielded missile warning systems worldwide and developing a new, smaller and lighter system to address a wider missile warning market. The first major upgrade to the improved system called the AN/AAR-44A has completed testing and is expected to enter into production in the near term.

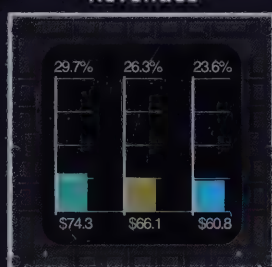


Communications Canadian Marconi Company



1994/1995
1995/1996
1996/1997

Revenues



(in millions of dollars)

Communications revenues decreased from \$66.1 million in fiscal 1996 to \$60.8 million in fiscal 1997, due to a reduction in facsimile switching revenues.

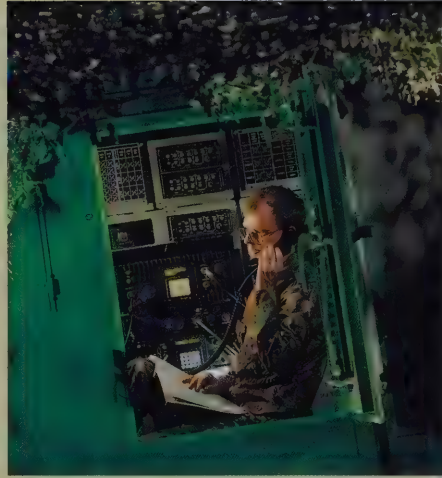
The Corporation's commercial communications revenues are derived primarily from facsimile switching products and its Canadian resale and distribution products. During the year, management reduced its marketing efforts for the facsimile products to focus on resolving technical and contractual issues caused by problems inherent in earlier product software releases. As a result, facsimile switching revenues declined by \$17 million compared to last year, and it was necessary to take certain unusual charges referred to in Note 10 to the Consolidated Financial Statements. Management believes that the product is now more effective, and is reviewing various alternatives, including strategic partnerships, to better the Corporation's market position.

The reduction in facsimile switching revenues was partially offset by an increase in Canadian resale and distribution product revenues, due primarily to the establishment late in fiscal 1996 of a sales and service branch in Mississauga to target the southern Ontario market, and an increase in military communications revenues.

In fiscal 1997, CMC was awarded several major contracts to supply the AN/GRC-226(V) and AN/GRC-103 multi-channel line-of-sight radios and associated spares, training and support for several

Tactical Communications

- CMC completed a successful fielding of its most advanced tactical radio, the AN/GRC-512(V), in the Republic of China (Taiwan).
- In January 1997, CMC was an active participant in the Canadian Government's Team Canada trade initiative in South Korea, where the AN/GRC-512(V) radio is a leading candidate for a large radio replacement program.
- CMC was awarded several major contracts to supply the AN/GRC-226(V) and AN/GRC-103 multi-channel line-of-sight radios and associated spares, training and support for several long-standing customers in the Middle East.
- The production and system qualifications for the IRIS Radio Relay Vehicle for the Canadian Armed Forces have advanced, and the launch of the full-scale production of 42 vehicles is set for the second half of fiscal 1998. The program showcases CMC's system design and integration skills in preparation for future integration opportunities.
- The U.S. Government has continued to deploy CMC's Information Distribution System in various contingency situations where it has earned a reputation for reliability and flexibility. The system and its derivatives will be a critical element in CMC's contributions to the U.S. Army's Digitization of the Battlefield, a comprehensive military communications initiative.
- The U.S. Army and U.S. Marines have expressed interest in CMC's cosite interference cancelling technology. Contracts for development systems have been received from U.S. Army Communications Development Agencies.



long-standing customers in the Middle East. Partial delivery of these orders, and the advancement of system qualification testing for the IRIS Radio Relay Vehicle (IRRV) for the Canadian Armed Forces, contributed to an increase in military communications revenues compared to last year. Further deliveries to the Middle East are scheduled late in fiscal 1998, while revenues from the IRRV program are expected to remain at similar levels next year, as the launch of the full-scale production of 42 vehicles is not scheduled until the second half of fiscal 1998.

As in the military aerospace market, retrofit spending is increasing in the U.S., ahead of new programs. With an installed base of some 10,000 line-of-sight radios in the U.S. armed forces, the Corporation believes that future upgrade opportunities are available. In addition, CMC has an installed base of over 10,000 multi-channel radios outside of the U.S.. Program opportunities in these markets are frequently delayed, as priorities are often subject to changing political and financial conditions. This has led to delays in fiscal 1997 of certain contract selections in Asia.

Commercial Communications

- Trials of CMC's CMA-2032 Antenna Signal Processor, an interference canceller for the commercial wireless market, are ongoing in South Korea, the U.S. and Europe, and follow-on sales have been received.
- In terms of its resale and distribution products, CMC was selected by BC Ferries to provide the integrated navigation systems for three new high-speed catamaran ferries; and to supply radar scanners and transceivers for the Platform Radar System as well as the weather station and T.V./radio and entertainment system for the Hibernia project. CMC also sold Global Maritime Distress and Safety System (GMDSS) and radar simulation packages to several Canadian and U.S. colleges.



Hibernia Management and Development Company Ltd.



Electronic Components
Electronic
Components
Canadian Marconi
Company

Revenues

1994/1995

1995/1996

1996/1997



(in millions of dollars)

The Corporation's main product groups serving the electronic components market include displays, panels, hybrid microcircuits and infrared (IR) detectors, primarily serving the military aerospace sector. Revenues increased to \$40.4 million in fiscal 1997 compared to \$38.3 million in fiscal 1996. The increase was driven by growth in panels and hybrids, due in part to customer outsourcing of non-core activities following industry consolidations in this market sector, and an increase in military aircraft retrofit programs. The Corporation intends to take advantage of these trends by increasing its product offerings.

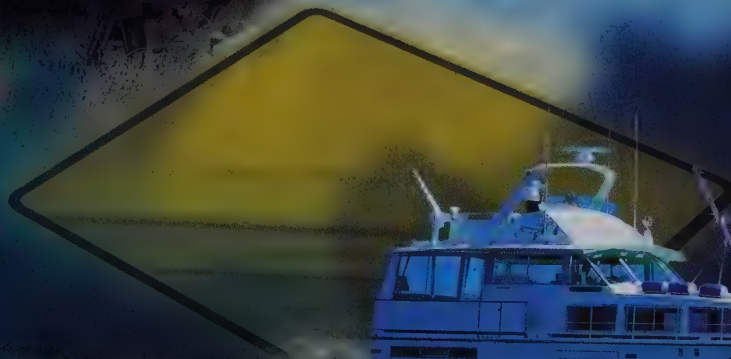
In fiscal 1997, several new contracts were received from Hughes Radar to develop new microcircuits for the F-15 and F-18 upgrade programs. CMC's continued development of 'smart displays' has led to orders for integrated keyboards and display components for Tracor Aerospace, IIT Aerospace and GEC-Marconi Avionics. The Corporation also received a major contract from IIT Aerospace for a Handheld Remote Control Radio Device that will replace the H-250 Handset on the Sincgars Ground Radio used by the U.S. military. Production on this program is scheduled to commence in fiscal 1998.

- Harris Corporation presented an award to CMC in recognition of its outstanding customer service and performance in supplying hybrid microcircuits for the Advanced Medium Range Air-to-Air Missile known as AMRAAM.
- Development was completed of the first CMC integrally illuminated panel to be used on the International 'Alpha' Manned Space Station for Spar Aerospace. The panel was designed for the robotics work station, which provides the critical operator interface for the control of the Space Station Remote Manipulator System.
- Northrop Grumman awarded CMC a further contract to provide power supplies for the U.S. Navy BQM-74E target drone. CMC was presented with an award last fiscal year for having achieved the highest status level for a supplier to Northrop Grumman in terms of quality and overall delivery performance.
- To maximize the pursuit of business opportunities in the Original Equipment Manufacturer (OEM) sector, CMC has transferred the OEM GPS business from Northstar Technologies to its Electronic Components business unit. CMC will now be in a position to offer its extensive engineering capabilities to customers involved in integrating complex components in the large electronic systems which they manufacture.
- CMC's ALLSTAR GPS receiver is continuing to make inroads in a variety of demanding applications requiring accurate and reliable position data. This high performance 12-channel GPS module is based on the powerful chip set from GEC Plessey Semiconductors. Applications range from automatic vehicle location, aviation and marine navigation, to golf cart yardage systems and Differential GPS base station systems.



Surface Transportation

Transportation Canadian Marconi Company



Revenues

1994/1995

1995/1996

1996/1997



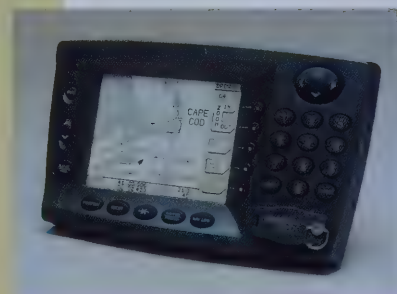
(in millions of dollars)

Surface Transportation revenues increased from \$10.1 million in fiscal 1996 to \$16.9 million in fiscal 1997, due primarily to the solid growth of Northstar's marine

GPS navigators, which dominated the high-end U.S. recreational market. These products continue to enjoy strong acceptance in the marketplace, having received awards in fiscal 1997 for 'Best GPS Navigator' for the 941XD Navigator, and 'Best GPS Chart Plotter' for the new 951XD navigation plotter. The Corporation recognizes that growth in this market segment is driven, in part, by the robust U.S. economy providing increasing levels of disposable income.

To protect against future downturns, Northstar is pursuing other market opportunities for its GPS technology. One such market is precision agriculture, which has continued to mature, with very active crop yield monitoring activity in the U.S. Midwest. Northstar's Differential GPS receiver products have found favour with system integrators developing software applications for yield enhancement. The next stage of development in this market will involve variable application of chemicals and seed stock, and precision machine guidance. Northstar is particularly well positioned to take advantage of these developments, with reliable and accurate core GPS technology and an inherent flexibility in design.

- In the precision agriculture market, Northstar's Differential GPS receiver products have found favour with system integrators developing software applications for crop yield enhancement.
- Canadian Marconi has entered into a license agreement for the FreightLink fleet management system developed primarily for the Less than Truck Load (LTL) trucking industry. The exclusive license was signed with Cadec Systems Inc. of Londonderry, New Hampshire. Cadec is a wholly owned subsidiary of Cummins Engine Company of Columbus, Indiana, a prime supplier of diesel engines to the trucking industry. The FreightLink system provides trucking companies with real-time control over their fleet operations with respect to the delivery and pick-up process and other aspects of fleet management.
- Northstar's marine GPS navigators were again honoured by the National Marine Electronics Association (NMEA). Northstar was presented with the prestigious NMEA award for 'Best GPS Navigator' for the 941XD Navigator, and 'Best GPS Chart Plotter' for the new 951XD navigation plotter, featuring a 12-channel GPS receiver and a built-in, dual-channel, automatic differential receiver.



Consolidated Results

Consolidated Statement of Income

Revenues and Product Margins

As mentioned at the beginning of this analysis, consolidated revenues have increased to \$257.8 million compared with \$251.5 million in the previous year. Product margins, after manufacturing, selling and administration expenses, increased to 21.1% in fiscal 1997 from 14.7% in fiscal 1996, before unusual charges. Improvements were due primarily to manufacturing efficiencies achieved on higher volumes of commercial products, a better sales mix of higher margin military communications and aerospace products, improved contract performance on certain long-term production programs as they near completion, and on-going cost reduction efforts.

Research and Development

R&D expenditures amounted to \$25.3 million or 9.8% of revenues in fiscal 1997 compared to \$18.3 million or 7.3% of revenues in fiscal 1996. These amounts are net of provincial and federal R&D government participation of \$4.3 million in fiscal 1997 compared to \$7.6 million in fiscal 1996. The decline in government participation is due primarily to the completion of Defence Industry Productivity Program (DIPP) funding on several development programs in fiscal 1997. While funding of this type is not expected to return to previous levels, the Corporation does expect to

participate in similar government programs in the future. R&D spending in communications and aerospace was increased compared to last year's levels, to meet future market opportunities. The Corporation's R&D programs include the support of new product development strategies and the continued enhancement of existing products, including, among others, line-of-sight radios, Aero-I Satcom antennas, GPS aerospace and surface applications, infrared product applications and display technologies.

Depreciation and Amortization

Depreciation and amortization decreased by \$1.4 million to \$10.7 million in fiscal 1997, due primarily to certain productive assets becoming fully depreciated in the year, combined with a reduced level of capital expenditures in fiscal 1996.

Unusual Item

Fiscal 1997 operating income was reduced by \$16.3 million due to the writedown of goodwill and other unusual charges related to the facsimile switching business (see Note 10 to the Consolidated Financial Statements).

In fiscal 1997, marketing efforts for facsimile switching products were reduced to focus on resolving technical and contractual issues caused by problems inherent in earlier product software releases, resulting in a writedown of goodwill and the recording of certain contractual and restructuring provisions.

Other Income and Expenses

An unrealized foreign exchange gain of \$1.6 million was recorded against the Corporation's U.S. dollar short-term investments at March 31, 1997, due to a weakening of the Canadian dollar from March 31, 1996. An unrealized exchange loss of \$2.7 million was recorded last year.

Fiscal 1997 interest income decreased slightly from fiscal 1996, despite higher cash and short-term investment balances, due to lower Canadian and U.S. interest rates. The lower U.S. interest rates also resulted in a decrease in interest expense on the Industrial Development Revenue Bonds held by CE.

The Corporation's investment policy requires it to limit investments to the highest grade of commercial paper or government securities, with a view to enhancing asset protection rather than income maximization. At March 31, 1997, the cash and short-term investments were \$151 million held in U.S. dollars and \$59 million held in Canadian dollars.

Income Taxes

Income tax expense increased to \$11.0 million in fiscal 1997 compared to \$7.4 million in fiscal 1996, due primarily to the non-deductibility of the goodwill writedown associated with the facsimile switching business. As a result, the effective income tax rate increased in fiscal 1997 to 68.8% from 44.8% last year.

Net Income

After unusual charges, net income decreased to \$5.0 million or \$0.21 per share in fiscal 1997, compared with \$9.1 million or \$0.38 per share last year. Higher revenues and improved product margins, before unusual item, allowed the Corporation to increase its R&D spending compared to last year's levels. In addition, during the year, CE reached a settlement with the U.S. Government in respect of its 1989 contract termination for the design and production of an airborne radio. Net settlement proceeds of \$2.0 million before tax are included in fiscal 1997 operating income.

Backlog

Order backlog increased to \$205 million at March 31, 1997, from \$180 million last year, due primarily to increased orders of commercial aerospace products, both in avionics and space electronics. Certain contracts to supply line-of-sight radios and associated spares to several long-standing customers in the Middle East were also received late in fiscal 1997, compensating for a decline in the Corporation's military aerospace backlog.

In the Corporation's commercial markets and, increasingly for certain military products, orders are being booked and shipped over shorter lead times. As a result, the trend in the Corporation's order backlog is not necessarily indicative of a sales outlook for future periods.

Liquidity and Capital Resources

The Corporation had cash and short-term investment balances of \$268 million at March 31, 1997, compared to \$226 million at March 31, 1996. The increase is due primarily to an improvement in operating income before unusual item, combined with a reduction in net working capital balances from March 31, 1996. In particular, accounts receivable balances were reduced by \$13.0 million or 20% over March 31, 1996, due primarily to the smaller volume of shipments in the last two months of fiscal 1997 compared to fiscal 1996. In addition, accounts payable and accrued liabilities increased from fiscal 1996 despite lower inventory balances due, in part, to provisions created against the facsimile switching business.

Fixed asset additions increased by \$4.5 million over fiscal 1996, with nearly 40% of fiscal 1997 expenditures being made at the Corporation's U.S.-based subsidiaries. Northstar undertook building renovations to increase office and manufacturing space, while CE invested in engineering and manufacturing equipment, to support the revenue growth of its space electronics and infrared product lines. The remaining expenditures were made primarily in manufacturing equipment and engineering design tools, to increase productivity and support the Corporation's revenue growth.

In fiscal 1997, the Corporation received the necessary demolition permits to raze its vacated Trenton Avenue facility. The Corporation expects to complete the demolition by the summer of 1997 and, under the terms of an agreement, the developer is expected to begin to purchase lots for residential construction in fiscal 1998. The Trenton facility is disclosed as property held for resale in Note 3 to the Consolidated Financial Statements.

At March 31, 1997, the Corporation's only indebtedness was \$8.3 million of Industrial Development Revenue Bonds issued by CE and secured by an irrevocable letter of credit agreement. The letter of credit agreement restricts the incurrence of additional indebtedness and the payment of dividends by CE, and requires the maintenance of minimum tangible net worth with respect to CE.

The Corporation has an agreement with its banker for a committed credit facility totalling \$30 million. At March 31, 1997, none of this facility was utilized. The Corporation's cash and temporary investment balances, the line of credit, together with internally generated cash flow and other available sources of financing, are expected to be sufficient to meet the Corporation's cash requirements.

The Board of Directors determines the level of dividend payments based on the Corporation's operating profitability. The last semi-annual dividend, declared on November 14, 1996, and paid in

December 1996 was \$0.07 per share. Total dividends paid in fiscal 1997 were \$0.14 per share. The Board of Directors has approved a July 1997 dividend payment of \$0.07 per share in respect of the year ended March 31, 1997.

General Risks and Uncertainties

CMC's consolidated sales and earnings are influenced by several external factors, the most significant of which are currency exchange rates and the resolution of contract performance criteria.

In fiscal 1997, approximately 64% of the Corporation's sales originating from Canada were in U.S. dollars, compared to 55% last year. The Corporation manages its foreign currency risk by negotiating foreign exchange protection clauses with its customers, or by entering into forward foreign exchange contracts. The Corporation does not engage in a speculative hedging program. At March 31, 1997, the Corporation had forward sales contracts in the amount

of U.S. \$55 million at an average exchange value of \$1.3675 (see Note 14 to the Consolidated Financial Statements).

Contracting with governments and large commercial organizations requires the ability to manage complex technical, financial and administrative specifications. A large proportion of the Corporation's revenues, particularly in the military aerospace and communications segments, are derived from such contracts, which are often long-term, fixed price contracts with multiple deliveries. The level of profitability to be recorded against these deliveries often relies on estimates of costs to complete the remaining work, which are regularly revised, based on past experience and performance. To mitigate these risks, project phase reviews are conducted by multidisciplinary teams at the outset of the bid, to completion of the program, in addition to contract status reviews to assess technical and cost performance. The Corporation's senior management regularly participates in these reviews.

Employee Relations

Labour contracts cover approximately 55% of CMC's Canadian employees, the majority being employed at the Corporation's Ville Saint-Laurent facility. The three-year contract with the CAW (Plant Union) representing hourly employees has been signed in March 1997. Negotiations with the CAW (Office Union) representing salaried employees have begun. The five-year contract with the association representing engineers and scientists, located in the province of Quebec, will expire in September 1999.

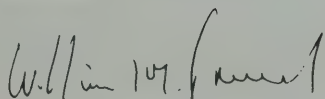
Consolidated Balance Sheet

10-12-96

March 31

(in thousands)	1997	1996
Assets		
Current assets		
Cash and short-term investments, at cost, including accrued interest	\$ 268,444	\$ 225,838
Accounts receivable	50,819	63,850
Income taxes refundable	3,513	8,778
Inventories (Note 2)	44,877	48,416
Prepaid expenses	664	591
Deferred income taxes	6,527	4,382
	374,844	351,855
Fixed assets (Note 3)	59,807	60,027
Goodwill, at cost, less accumulated amortization of \$5,051,000 (1996 - \$4,802,000)	8,684	19,392
	\$ 443,335	\$ 431,274
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 72,620	\$ 67,094
Income taxes payable	5,201	3,359
	77,821	70,453
Deferred income taxes	2,216	2,425
Long-term debt (Note 4)	8,321	8,047
Shareholders' equity		
Stated capital -		
Authorized capital - unlimited		
24,074,168 (1996 - 23,938,468)		
common shares issued (Note 6)	13,800	11,924
Retained earnings	333,066	331,447
Cumulative translation adjustment (Note 7)	8,111	6,978
	354,977	350,349
	\$ 443,335	\$ 431,274

APPROVED BY THE BOARD:



William I. M. Turner, Jr., C.M.
Director



Carmen L. Lloyd
Director

Consolidated Statement of Income

Year ended March 31

(in thousands)	1997	1996
Revenues (Note 8)	\$ 257,768	\$ 251,489
Operating expenses		
Manufacturing, selling and administration	203,409	214,452
Research and development, net of government participation of \$4,337,000 (1996 - \$7,646,000)	25,316	18,290
Depreciation and amortization	10,743	12,141
	239,468	244,883
	18,300	6,606
Unusual item (Note 10)	16,369	-
Operating income	1,931	6,606
Foreign exchange gain (loss) on short-term investments	1,583	(2,685)
Interest		
Interest income on short-term investments	12,914	13,113
Interest expense on long-term debt	(457)	(519)
Income before income taxes	15,971	16,515
Provision for income taxes (Note 9)	10,997	7,415
Net income	\$ 4,974	\$ 9,100
Net income per common share (in dollars)	\$ 0.21	\$ 0.38

Consolidated Statement of Retained Earnings

Year ended March 31

(in thousands)	1997	1996
Retained earnings, beginning of year	\$ 331,447	\$ 322,347
Net income	4,974	9,100
	336,421	331,447
Dividends - 14 cents per common share (1996 - nil)	3,355	-
Retained earnings, end of year	\$ 333,066	\$ 331,447

Consolidated Statement of Changes in Financial Position

Year ended March 31

(in thousands)	1997	1996
Cash provided by (used in)		
Operating activities		
Net income	\$ 4,974	\$ 9,100
Depreciation and amortization	10,743	12,141
Goodwill writedown (Notes 10 and 5)	9,635	2,137
Deferred income taxes	(248)	(993)
(Gain) loss on sale of fixed assets	(73)	3,009
Net change in non-cash working capital balances	26,830	(3,519)
	51,861	21,875
Investment activities		
Additions to fixed assets, net of government assistance (Note 3)	(9,038)	(4,520)
Proceeds from sale of fixed assets	224	1,582
	(8,814)	(2,938)
Financing activities		
Dividends	(3,355)	-
Issuance of common shares	1,876	-
	(1,479)	-
Effect of fluctuations of exchange rates on cash and short-term investments	1,038	(1,175)
Total cash provided during the year	42,606	17,762
Cash and short-term investments, beginning of year	225,838	208,076
Cash and short-term investments, end of year	\$ 268,444	\$ 225,838

Notes to Consolidated Financial Statements

(all tabular amounts are in thousands of dollars)

1. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying financial statements consolidate the accounts of Canadian Marconi Company and those of companies it controls, all of which are majority owned, together with the Corporation's 50% share of assets, liabilities, revenues and expenses of the corporate joint venture in which it participates.

(b) Inventories

Raw materials and bought-out components, work in process and finished products are valued at the lower of cost and estimated net realizable value. The cost is determined using the first-in, first-out method for raw materials and bought-out components. The cost of work in process and finished products includes the cost of raw materials, direct labour and associated overhead. Deductions are made for progress payments received and any losses incurred on contracts not completed at the balance sheet date.

(c) Fixed assets and depreciation

Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets, as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years

(d) Income taxes

The Corporation provides for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws. Investment tax credits relating to scientific research and experimental development have been accounted for using the cost reduction method, whereby the expenditure is reduced by the credits.

(e) Recognition of revenue

Revenue is normally recognized when products are shipped or services rendered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total cost of completing the contracts. There were no contracts accounted for as major long-term contracts in 1997 and 1996.

(f) Goodwill

Goodwill represents the excess of the purchase price of acquired companies and businesses over the value assigned to the identifiable assets acquired and is being amortized on a straight-line basis over a period of ten to twenty-five years. The Corporation assesses at each balance sheet date whether there has been a permanent impairment in the value of goodwill. As a result of these assessments, the Corporation wrote down the carrying value of the goodwill at March 31, 1997 (see Note 10) and at March 31, 1996 (see Note 5).

(g) Translation of foreign currencies

For Canadian operations, assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at rates in effect at the date of the transaction. Exchange gains and losses are included in income.

For foreign subsidiaries, all of which are self-sustaining U.S. operations, assets and liabilities are translated at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in the cumulative translation adjustment component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the period.

Gains or losses on forward foreign exchange contracts are recognized at contract maturity and are included in revenues.

(h) Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 1997.

2. Inventories

	1997	1996
Raw materials and bought-out components	\$ 8,523	\$ 7,610
Work in process	35,019	41,768
Finished products	6,510	5,984
	50,052	55,362
Progress payments	(5,175)	(6,946)
	\$ 44,877	\$ 48,416

3. Fixed assets

	1997			1996		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	\$ 8,639	\$ -	\$ 8,639	\$ 8,588	\$ -	\$ 8,588
Buildings	44,474	11,031	33,443	44,019	9,337	34,682
Plant, machinery and equipment	106,141	91,370	14,771	118,056	104,278	13,778
Equipment on rental	1,258	1,049	209	1,334	1,100	234
Property held for resale	14,226	11,481	2,745	14,226	11,481	2,745
	\$ 174,738	\$ 114,931	\$ 59,807	\$ 186,223	\$ 126,196	\$ 60,027

Capital expenditures authorized and committed at March 31, 1997, were \$1,651,000.

Direct government assistance applied to fixed asset additions in the fiscal year amounted to \$300,000 (1996 - \$900,000).

4. Long-term debt

	1997	1996
Variable interest rate (rate varies with U.S. prime)		
Industrial Development Revenue Bonds, due		
September 1, 2015 - U.S. \$6,011,000 (1996 - U.S. \$5,903,000)	\$ 8,321	\$ 8,047

The Industrial Development Revenue Bonds issued by Cincinnati Electronics Corporation are secured by an irrevocable letter of credit agreement which includes restrictions on that subsidiary relating to the maintenance of minimum net worth, payment of dividends and incurrence of additional indebtedness.

5. Joint venture financial information

The financial statements include the proportionate share of the assets, liabilities, revenues and expenses of Micronav International Inc. as follows:

	1997	1996
Assets	\$ 217	\$ 3,053
Liabilities	\$ 238	\$ 243
Revenues	\$ 1	\$ 373
Net income	\$ 55	\$ 649

On March 31, 1995, the Microwave Landing System (MLS) contracts held by Micronav International Inc. were terminated for convenience by the customer. During 1996, a satisfactory termination settlement was reached and Micronav ceased operations. The settlement proceeds, net of related expenses and the writedown of goodwill, were included as a reduction of operating expenses. The Corporation completed the necessary tax filings in 1997 and will wind up the joint venture following the completion of the relevant government audits.

6. Share option plan

The Corporation maintains a share option plan for officers and selected senior managers of the Corporation. Under the plan, participants are granted options to purchase common shares of the Corporation at the market value on the date prior to the grant. These options are exercisable after three years and expire seven years from the date of the grant. Common shares aggregating 750,000 had been authorized and reserved for the plan of which 301,400 have been issued, leaving a balance of 448,600 shares, at March 31, 1997. During the year ended March 31, 1997, 135,700 common shares have been issued (1996 - nil).

Outstanding options granted to participants in the plan are as follows:

Granted in fiscal year	Weighted average price per common share	Outstanding at March 31, 1997
1991	\$ 9.625	1,200
1992	\$ 14.25	27,300
1993	\$ 14.25	20,200
1994	\$ 14.88	19,700
1996	\$ 13.25	50,000
1997	\$ 14.28	67,800
		186,200

7. Cumulative translation adjustment

	1997	1996
Balance at beginning of year	\$ 6,978	\$ 8,864
Effect of changes in exchange rates during the year on the net investment in U.S. self-sustaining subsidiaries	1,133	(1,886)
Balance at end of year	\$ 8,111	\$ 6,978

8. Segmented information

The Corporation is engaged in substantially one class of business: the design, manufacture and sale of electronic products. Included in total revenues of Canada are export sales in the fiscal year amounting to \$132,915,000 (1996 - \$122,319,000). The point of origin (the location of the selling organization) of revenues and the location of assets determine the geographic location, as follows:

	CANADA		UNITED STATES		CONSOLIDATED	
	1997	1996	1997	1996	1997	1996
Revenues	\$ 175,038	\$ 177,571	\$ 82,730	\$ 73,918	\$ 257,768	\$ 251,489
Income before income taxes	\$ 13,721	\$ 12,640	\$ 2,250	\$ 3,875	\$ 15,971	\$ 16,515
Identifiable assets at March 31	\$ 322,442	\$ 309,341	\$ 120,893	\$ 121,933	\$ 443,335	\$ 431,274

9. Provision for income taxes

	1997	1996
Provision for income taxes based on a Canadian income tax rate of 42.46% (1996 - 39.49%)	\$ 6,782	\$ 6,521
Increase (decrease) in taxes resulting from:		
Research and development tax incentives	(100)	(132)
(Non-taxable) non-deductible portion on (gain) loss on exchange	(179)	303
Income tax rate differential on earnings of U.S. subsidiaries	981	397
Non-deductible goodwill amortization	3,320	325
Other items - net	193	1
	\$ 10,997	\$ 7,415

10. Unusual item

Unusual item consists of a writedown of the carrying value of goodwill of \$9,635,000 and contractual and restructuring provisions of \$6,734,000 relating to the Corporation's facsimile switching business further to problems inherent in earlier product software releases encountered by the Corporation.

11. Related party transactions

The General Electric Company, p.l.c. (GEC) of London, England, indirectly owns 51% of the outstanding common shares of the Corporation. During the fiscal year, the Corporation's sales to GEC and its subsidiaries amounted to \$5,803,000 (1996 - \$2,674,000). The Corporation purchased goods and services from GEC and its subsidiaries amounting to \$10,803,000 (1996 - \$5,029,000). At March 31, 1997, the Corporation had accounts receivable and accounts payable with these associated companies amounting to \$588,000 (1996 - \$326,000) and \$3,726,000 (1996 - \$3,109,000) respectively. The above transactions have been measured at their exchange value.

12. Pension plans

The Corporation maintains a number of pension plans to provide retirement income to its employees. The benefits provided to retiring employees under the plans are determined by calculations which include both defined benefit and defined contribution schemes. Based on actuarial evaluations of the defined benefit portion of these pension plans, at March 31, 1997, the present value of the accrued pension benefits is \$62,191,000 (1996 - \$59,075,000) and the pension fund assets are valued at \$63,865,000 (1996 - \$65,574,000).

13. Contingencies

Sales of the Corporation's products are primarily subject to the provisions of contracts with governments and commercial organizations. The administration of these contracts is often the subject of litigation, technical disputes and sophisticated arguments involving government and commercial contract laws. Management believes that adequate provision has been made in the consolidated financial statements for these disputes and other normal uncertainties in connection with its business.

14. Financial instruments

(a) Derivative financial instruments

The Corporation mitigates the risk associated with foreign exchange rate fluctuations related to the U.S. dollar transactions from its Canadian operations by entering into forward foreign exchange contracts as normal business transactions. Through these contracts, the Corporation is engaged to sell U.S. dollars in future periods at specific rates. Derivative financial instruments are not used for speculative purposes. The Corporation entered into contracts as detailed below:

	Average rate		Contract amount	
	1997	1996	1997	1996
	(Canadian dollars)		(thousands of U.S. dollars)	
Forward foreign exchange contracts - 0 to 12 months	\$ 1.3638	\$ 1.3667	\$ 46,000	\$ 42,500
Forward foreign exchange contracts - 13 to 24 months	\$ -	\$ 1.3798	\$ -	\$ 22,500

The fair value of these instruments is represented by the estimated amounts that the Corporation would receive or pay to settle the contracts at the balance sheet date, taking into account the unrealized gain or loss on open contracts.

	1997	1996
Forward foreign exchange contracts - unrealized gain	\$ -	\$ 440
Forward foreign exchange contracts - unrealized loss	\$ (783)	\$ -

(b) Credit risk

Cash and forward contracts are in place with major financial institutions. Short-term investments are comprised of bonds, commercial papers and guaranteed loans of major corporations, governments and financial institutions. The credit risk concentration on accounts receivable balance is limited due to the variety of geographical and business natures of the Corporation's customers.

(c) Interest-bearing financial instruments

The Corporation's exposure to interest-bearing financial instruments as at March 31, 1997, is as follows:

Short-term investments, maturing within 1 year	Fixed interest rate
Long-term debt	Floating interest rate

The face value of short-term investments totals \$264,748,000 at March 31, 1997 (1996 - \$224,778,000), including U.S. \$150,056,000 (1996 - U.S. \$113,488,000) and their weighted average interest rate is 5.13% (1996 - 5.47%).

(d) Fair value of financial instruments

The following methods and assumptions have been used to estimate the fair value of the financial instruments:

Cash and short-term investments, accounts receivable, accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their short-term maturities.

The fair value of the long-term debt is estimated to be the amount due at maturity, which is U.S. \$8,000,000 in September 2015.

(e) Line of credit

The Corporation has an agreement with its banker for a committed credit facility totalling \$30,000,000. At March 31, 1997 and 1996, none of this facility was utilized.

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Canadian Marconi Company are the responsibility of Management and have been approved by the Board of Directors.

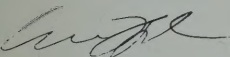
The Consolidated Financial Statements have been prepared by Management in accordance with generally accepted accounting principles. These Financial Statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the Consolidated Financial Statements are presented fairly in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Canadian Marconi Company's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements. The Board carries out this responsibility principally through its Audit Committee.

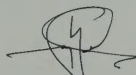
The Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the external auditors' report. The Committee reports its findings to the Board for consideration by the Board when it approves the Consolidated Financial Statements for issuance to the shareholders.

The Consolidated Financial Statements have been audited by Price Waterhouse, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.



Carmen L. Lloyd
President and Chief Executive Officer

May 29, 1997



Gregory A. Yeldon, CA
Vice President and Chief Financial Officer

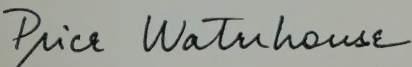
Auditors' Report

To the Shareholders of
Canadian Marconi Company

We have audited the consolidated balance sheets of Canadian Marconi Company as at March 31, 1997 and 1996 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Montreal, Quebec

May 29, 1997

Quarterly Financial Information

(in thousands of dollars, except as otherwise stated)
(unaudited)

Year ended March 31, 1997

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	\$ 55,007	\$ 57,457	\$ 70,271	\$ 75,033	\$ 257,768
Net income (loss)	\$ 3,283	\$ 2,661	\$ 4,944	\$ (5,914)	\$ 4,974
Net income (loss) per common share (in dollars)	\$ 0.14	\$ 0.11	\$ 0.21	\$ (0.25)	\$ 0.21

Year ended March 31, 1996

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	\$ 45,914	\$ 57,285	\$ 66,463	\$ 81,827	\$ 251,489
Net income (loss)	\$ (504)	\$ (1,792)	\$ 4,817	\$ 6,579	\$ 9,100
Net income (loss) per common share (in dollars)	\$ (0.02)	\$ (0.08)	\$ 0.21	\$ 0.27	\$ 0.38

Common Share Information

Market Price Range by Quarter

The Toronto Stock Exchange and the Montreal Exchange are the principal markets on which the Corporation's shares are traded.

The following table sets forth the high and low sales prices for each quarter of the last two fiscal years.

	1997		1996	
	High	Low	High	Low
1st Quarter	\$ 14.50	\$ 12.25	\$ 13.00	\$ 11.88
2nd Quarter	\$ 16.95	\$ 13.00	\$ 15.63	\$ 12.00
3rd Quarter	\$ 16.25	\$ 14.50	\$ 14.00	\$ 12.00
4th Quarter	\$ 18.50	\$ 14.90	\$ 15.00	\$ 13.00

Corporate Information

Directors

- **H. Anthony Arrell**
Chairman and Chief Executive Officer, Burgundy Asset Management Ltd.
Toronto, Ontario, Canada
- **Howard L. Beck, Q.C.**
Chairman, Philip Services Inc., Toronto, Ontario, Canada
- **Pierre Dufour**
Vice-President, International Engineering and Construction, L'Air Liquide S.A.
Paris, France
- **Jack R. Fryer**
Strategic Planning Director, The General Electric Company, p.l.c.
London, England
- **Stephen A. Jarislowsky, O.C.**
Chairman, Jarislowsky, Fraser Limited, Montreal, Quebec, Canada
- **John R. Killick**
Corporate Director, Ottawa, Ontario, Canada
- **Ian G. King**
Finance Director, GEC-Marconi Ltd., Stanmore, England
- Saul H.B. Lanyado, Ph.D.**
Group Managing Director, GEC-Marconi Avionics Limited, Kent, England
- Carmen L. Lloyd**
President and Chief Executive Officer, Canadian Marconi Company
Ville Saint-Laurent, Quebec, Canada
- Brian H. Rowe**
Chairman Emeritus, GE Aircraft Engines, General Electric Company
Cincinnati, Ohio, U.S.A.
- **Reed Scowen**
President, Reedsco Inc., Montreal, Quebec, Canada
- **The Hon. Ian D. Sinclair, O.C., Q.C.**
Corporate Director, Toronto, Ontario, Canada
- **William I.M. Turner, Jr., C.M.**
Chairman and Chief Executive Officer, Exsultate Inc.
Montreal, Quebec, Canada

- Member Audit Committee
- Chairman Audit Committee
- Member Defence Security Committee
- Chairman Defence Security Committee
- Member Compensation Committee
- Chairman Compensation Committee
- Member Nominating and Corporate Governance Committee
- Chairman Nominating and Corporate Governance Committee

Executive Offices

600 Dr. Frederik Philips Boulevard, Ville Saint-Laurent,
Quebec, Canada H4M 2S9
Tel. (514) 748-3148 Fax (514) 748-3100

Registered Offices

415 Legget Drive, P.O. Box 13330, Kanata, Ontario, Canada K2K 2B2
Tel. (613) 592-6500 Fax (613) 592-7427

Internet Web Site

<http://www.marconi.ca>

Subsidiaries

CINCINNATI ELECTRONICS CORPORATION

7500 Innovation Way, Mason, Ohio, U.S.A. 45040-9699
Tel. (513) 573-6100 Fax (513) 573-6290
Internet Web site: <http://www.cinele.com>
Dr. James T. Wimmers, Chairman,
President and Chief Executive Officer

NORTHSTAR TECHNOLOGIES,

A DIVISION OF CMC ELECTRONICS, INC.

30 Sudbury Road, Acton, Massachusetts, U.S.A. 01720
Tel. (508) 897-6600 Fax (508) 897-7241
Internet Web site: <http://www.northstarcmc.com>
Scott Lewis, General Manager

CMC DATACOMM, INC.

Suite 300, 1861 Wiehle Avenue, Reston, Virginia, U.S.A. 22090
Tel. (703) 736-3300 Fax (703) 736-3400
Bryan Locker, Vice President

Officers

- Alan F. Barker**
Vice President, Communications Systems, Ville Saint-Laurent, Quebec, Canada
- Sylvain Bédard**
Vice President, Operations, Ville Saint-Laurent, Quebec, Canada
- Gregg R. Fawkes**
Vice President, Business Development and Strategic Planning
Ville Saint-Laurent, Quebec, Canada
- Michel Guilbault**
Vice President, Human Resources
Ville Saint-Laurent, Quebec, Canada
- Carmen L. Lloyd**
President and Chief Executive Officer
Ville Saint-Laurent, Quebec, Canada
- Bryan Locker**
Vice President, Commercial Communications, Kanata, Ontario, Canada
- Marcia McKenzie**
Treasurer, Ville Saint-Laurent, Quebec, Canada
- Guy J. Paquette**
Vice President, General Counsel and Corporate Secretary
Ville Saint-Laurent, Quebec, Canada
- Sol Rauch**
Vice President, Aerospace, Kanata, Ontario, Canada
- Jean-Denis Roy**
Assistant Secretary, Ville Saint-Laurent, Quebec, Canada
- William I.M. Turner, Jr., C.M.**
Chairman of the Board, Canadian Marconi Company
Ville Saint-Laurent, Quebec, Canada
- Gregory A. Yeldon, CA**
Vice President and Chief Financial Officer
Ville Saint-Laurent, Quebec, Canada

Stock Exchanges (CMW)

The Toronto Stock Exchange

The Montreal Exchange

American Stock Exchange

Transfer Agent and Registrar

MONTREAL TRUST COMPANY

1800 McGill College Avenue, Montreal, Quebec, Canada H3A 3K9
Tel. (514) 982-7555

Auditors

PRICE WATERHOUSE

1250 René-Lévesque Boulevard West, Suite 3500,
Montreal, Quebec, Canada H3B 2G4

U.S. Cash Dividend Plan

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company.



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